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SUBJECT: LESOTHO: APRIL 2007 ECONOMIC ROUNDUP

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11. SUMMARY:

- SADC Council of Finance Ministers Convened in Maseru
- World Bank Considers Lesotho for Non-Concessional Loans
- UNFPA Presents 5th Five-Year Country Program
- New Diamond Mining Areas Explored. END SUMMARY.

SADC COUNCIL OF FINANCE MINISTERS

12. On March 22-23, the SADC Council of Ministers convened in Maseru to assess Lesotho's progress towards launching the SADC Free Trade Agreement (FTA) in 2008, to be followed by a Customs Union in 2010 and a Monetary Union in 2016. The chair of the meeting, Lesotho's Minister of Finance and Development Planning Dr. Timothy Thahane, stated during a press briefing that an audit of SADC member states' tariff reduction schedules was begun in February 2007 and will conclude at the end of April. He also noted that in February 2007, SADC's member states began to update the organization's 2004 inventory report on non-tariff barriers. Concerning the planned Customs Union, Thahane said that SADC will study various customs union models as well as the compatibility of states' national trade policies while the customs union roadmap is being finalized.

13. The SADC Council of Ministers reviewed the tax and revenue laws of various member states as well as possible alternative mechanisms for compensating the revenue lost by some member states due to the customs integration measures. A comprehensive study of these issues will be available in June 2007. The Council also highlighted two other problems: 1) member states' overlapping multiple membership in other regional organizations pursuing a similar economic integration agenda; and 2) a lack of political will to cede national sovereignty on tariff and industrial policies to SADC. [NOTE: All SADC member states except Mozambique have dual or multiple memberships in the Southern African Customs Union (SACU), the Common Market for East and Southern Africa (COMESA), and the East African Community (EAC). END NOTE.] The resolution of these two issues

will prove crucial to implementing of SADC's economic agenda.

World Bank Considers Lesotho for Loans

14. On March 29, the World Bank met with experts from Lesotho to consider the nation's creditworthiness for International Bank for Reconstruction and Development (IBRD) loans. Lesotho's external debt composition is currently 87.8% of the total public debt, of which 83% is concessional. Lesotho's foreign debt as a percentage of GDP is presently 40%, which is considered sustainable. (NOTE: The debt sustainability threshold is 60% of GDP for Highly Indebted Poor Countries. Lesotho's long-term foreign currency credit rating BB-. END NOTE.) Lesotho's capacity for continued loan repayments is viewed as dependent on a continued favorable economic environment. Lesotho's current rating is in the same bracket as Nigeria, Indonesia, Turkey and Ukraine. The GOL's stated policy is to borrow on concessional terms in order to moderate the country's future debt burden.

UNFPA/GOL's Fifth Country Program

15. The United Nations Population Fund (UNFPA), in collaboration

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with the Government of Lesotho, organized a workshop from March 22-26, to develop a five-year population program of assistance. This is the fifth Lesotho/UNFPA country program, and is to be implemented between 2008 and 2012. Lesotho's Director of the Bureau of Statistics, Mrs. Lefosa, officially opened the workshop, stating that Lesotho is faced with challenges including high unemployment, drought, and HIV/AIDS. Mrs. Lefosa said the past four UNFPA/GOL programs had not addressed these issues, and urged that they be included in the fifth program. The UNFPA Director acknowledged USAID assistance in the struggle against HIV/AIDS, however, he urged USAID to concentrate on poverty reduction strategies in order to have the greatest impact on the crisis.

New Diamond Mining Areas Explored

16. Following major diamond finds in 2006 and early 2007, four companies -- European Diamonds, Thabex/Angel Diamonds, Motapa Diamonds, and Lesotho Diamonds Corporation -- have begun exploring or building mines in Lesotho. European Diamonds has applied for prospecting rights on a 2000 square kilometer area. Angel Diamonds, which is 80% South Africa-owned, is exploring the Kolo pipe (Mafeteng region) which potentially offers large rough diamonds but at a high capital cost. In March 2007, Motapa Diamonds began an \$8 million sampling program to evaluate the economic potential of the Mothae area, about 6.5 kilometers northwest of Letseng. The Government of Lesotho levies an eight percent royalty on diamonds mined the country, with proceeds

channeled directly into the national treasury. The participation of local mining companies in all mining projects is required by law. Also, unskilled mine workers are required to be hired locally and Basotho skilled workers are legally given preference in the mining sector. The GOL has recently modernized its mining legislation to make foreign investment more attractive.

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